

WEALTH MANAGEMENT

Professional Athletes, Amateur Savers

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Professional athletes have the potential to be among the wealthiest members of society, but are often the most financially vulnerable as well. According to Sports Illustrated, 78% of retired NFL players are bankrupt or have reported serious financial stress within five years of their retirement. Likewise, 60% of NBA players are in financial distress within five years of their retirement and it is estimated that between 60% and 80% of all professional athletes go bankrupt within a few years after they retire from playing. With your average athlete earning more in their short career than most people will earn in a lifetime, this tragic state of affairs can't help but spark a few questions.

Where did all that money go?

When evaluating the celebrity athletes who have gone bankrupt, you see a few common themes in all of their downfalls: unsustainably lavish lifestyles, speculative investments, several children and divorces, and finally, misplaced trust.

We all see the lavish lifestyles that celebrity athletes live, but when your salary is in the millions of dollars per year, can't you afford it?

For young athletes who start to see \$500,000 pay checks, it is difficult to avoid the temptation of buying fast cars, big houses, and keeping \$10,000 a month budgets for what Kenny Anderson calls "hanging out money." For young athletes such as Latrell Sprewell, a four-time NBA all-star, the temptation to buy a 70-foot yacht with a mortgage of \$1,500,000 and a hefty \$10,000 a month payment would seem only natural when you have an estimated \$50,000,000 in career earnings. However, the bills and late fees add up quickly. Sprewell's yacht was repossessed in 2007 and went to auction in 2008 fetching only \$856,000. The losses didn't stop with Sprewell's luxury toys, as two of Sprewell's homes went into foreclosure in the same year.

Sprewell is in good company when considering spending habits. Evander Holyfield, affectionately known as "The Real Deal," lives in a lavish 54,000 square foot home with 109 rooms, 11 bedrooms, and 17 bathrooms sprawling over 235 acres of land. Scottie Pippen, a six-time NBA champion and seven-time NBA All-Star, had a \$4,300,000 Gulfstream jet parked in his hangar. Mike Tyson, "The Baddest Man on the Planet" had \$4,500,000 of cars parked in his garage, spent \$140,000 on two Bengal Tigers and installed a \$2,000,000 bath tub. All of these items were either repossessed or became part of a foreclosure proceeding.

You mentioned speculative investments. Don't the extremely wealthy generally make more speculative investments in seeking higher rewards as they can shoulder more risk than the rest of us?

Yes and no. Of course, the extremely wealthy can afford to take more investment risk with a portion of their investment portfolio than the rest of us, however, when making a speculative investment there needs to be some degree of due diligence. Everyone has a friend with an idea for “the next big thing.” Unfortunately, when you have a large bank account, all those “friends” start calling you. As an example, you may think it a nifty idea to have inflatable emergency rafts under their furniture in the event of a flood. Torii Hunter, nine-time Golden Glove winner, believed in the idea; he was swindled into investing \$70,000 into this startup venture. Fortunately for Torii, he sought legal guidance before writing a check for the additional \$500,000 he intended to invest.

Muhsin Muhammad, the retired 2-time Pro-Bowler, had to sell his home on eBay in an effort to pay his credit card debt associated with one of his associate’s failed start-up companies. Most notable of all, Scottie Pippen has lost an estimated \$27,000,000 to several start-up companies that went bankrupt.

Where does having children and getting divorced factor into this picture?

When asked what the most dangerous thing that could happen to a player was, Jerry Richardson, majority owner of the Carolina Panthers, immediately replied “Divorce.” On average, 51% of marriages will end in divorce, but that number is much higher for professional athletes. It is estimated that upwards of 80% of professional athletes will be divorced at least once.

Travis Henry, former pro-bowler, pays approximately \$170,000 per year in child support payments for nine of his eleven children. These payments are made to nine different women. Evander Holyfield has more children than bedrooms in his lavish mansion we talked about earlier. Perhaps saddest of all losses to divorce is Kenny Anderson’s, he pays child support for seven children, by five women. He has two ex-wives, one of whom seized half of his assets, \$10,000 a month in child support payments, and drives a sports car with the license plate “HISCASH.”

What is the misplaced trust you mentioned?

Famous athletes tend to have an entourage of advisers and “life-long friends.” While the athletes are competing and making public appearances they can not be bothered with the simple things like balancing their checkbook. They often seek the guidance and trust of friends and family who they have known all of their life. These friends and family often do not have business acumen and will be paid upwards of \$100,000 for their services. The NFL Players Association announced in a statement that between 1999 and 2002 “at least 78 players lost a total of \$42,000,000” because they “trusted money to financial advisers with questionable backgrounds.”

When evaluating how they will manage their wealth, many athletes reach out for the guidance of Magic Johnson, who retired from the NBA to become a successful entrepreneur,. Johnson remarked in an interview that he asks players who is currently managing their finances, and if the answer is a family member or friend, he hangs up the phone. Johnson encourages all players to hire a reputable, experienced, and trustworthy advisor to assist them in handling their finances.

What challenges do you identify in financial planning for athletes?

It is important to consider the extremely short period of time over which an athlete accumulates their wealth. For the average person, the majority of their wealth is accumulated in their 50's; most professional athletes accumulate their wealth in their 20's to early 30's as their career typically will not extend past ten years. In fact, your average player has a peak in their career (and earnings) of only three to five years. This shortened earnings period presents unusual challenges when implementing a financial plan as the accumulation phase for an athlete will last generally no longer than ten years with a distribution phase of more than sixty years.

What guidance would you give to an athlete seeking a financial advisor?

It would seem common sense to most, but players must be placed on strict budgets so they can live within their means. Just because you can afford something at the time, doesn't mean you need to have it. It may be nice to have fifteen sports cars and six houses, but the more you accumulate the more the maintenance costs continue to grow while your enjoyment of each item will diminish.

Engage the assistance of a reputable-trustworthy financial advisor who will act as the quarterback for all of your financial needs including wealth management, retirement planning and insurance planning. A financial advisor, however, cannot score the touchdown of your financial security alone. A good quarterback will surround themselves with a strong team by partnering with a skilled accountant and attorney. Budgeting spending habits and properly investing assets are not the only financial assistance necessary for an athlete. The tax system is complicated and the costs of penalties for not properly reporting your income are severe. Skilled attorneys and accountants will be able to provide additional assurances in protecting an athlete's wealth by drafting prenuptial agreements, living trusts, and other trusts that will be able to assure wealth is properly distributed over several generations and lasts through the life of all their heirs in a tax efficient way.

Debra Taylor, CPA/PFS, Esq., is a principal of Taylor Financial Group, LLC, a full service wealth management firm located in Franklin Lakes, NJ. She has been recognized for her dedication to her clients, having been named to the LPL Financial Chairman's Council, a distinction that less than 2 percent of the 12,027 LPL Advisors hold.*

AGATE TYPE

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